

Message Text

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TO SECSTATE WASHDC 4242

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SUBJECT: COMMON FUNDING FORMULAS

REF: STATE 126144, 012025Z JUNE 77

SUMMARY. WE RECOGNIZE THE POTENTIAL NEED FOR COMMON FUNDING OF CERTAIN MEASURES WHICH MAY ARISE FROM THE LONG-RANGE DEFENSE STUDIES AND AGREE THAT SOME THOUGHT SHOULD BE GIVEN TO A NATO COST-SHARING FORMULA WHICH COULD BE ADAPTED TO THE INDIVIDUAL CASES. WE SHOULD PROCEED WITH CAUTION, HOWEVER, TO AVOID CREATION OF A CASE FOR HIGHER US CONTRIBUTIONS THAN WE COULD SUPPORT TO CONGRESS. RECOMMEND, THEREFORE, THAT US DEVELOP A FORMULA WITH SUPPORTING RATIONALE WHICH WOULD RESULT IN A US SHARE SOMEWHAT LESS THAN WE WOULD BE WILLING TO PAY, IN ORDER TO PROVIDE NEGOTIATING ROOM DURING EVENTUAL DISCUSSION. END SUMMARY.

1. WE ARE ATTRACTED BY THE SUGGESTION THAT NATO MIGHT DEVELOP AN ALL-PURPOSE, MODULAR COST-SHARING FORMULA AS A BASIS FOR COMMON-FUNDED PROGRAMS WHICH MAY RESULT FROM NATO STUDIES STEMMING FROM THE RECENT MINISTERIAL DPC MEETING. WE AGREE THAT ITS FORMULATION MAY BE DIFFICULT AND THAT WE SHOULD AVOID A US LABEL.

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2. OVER THE YEARS, WE HAVE SEEN THE EMERGENCE OF SEVERAL COST-SHARING FORMULAS, GENERALLY DIVIDED INTO TWO CLASSES: COMPLETELY COMMON-FUNDED PROGRAMS (INFRASTRUCTURE, MILITARY AND CIVIL BUDGETS), AND LIMITED COOPERATIVE PROGRAMS (HAWK, NAMFI, CEOA, NAMSA, FORACS). NATIONAL FUNDING CONSIDERATIONS SEEM TO BE QUITE DIFFERENT DEPENDING ON WHETHER THE BENEFIT IS TO THE ALLIANCE AS

A WHOLE OR TO A SMALL GROUP OF NATIONS DESIRING TO PROCURE SOME WEAPON OR OPERATE SOME FACILITY.

3. IN THE LATTER CASE, COSTS HAVE GENERALLY BEEN BORNE ON THE BASIS OF RELATIVE NUMBER OF UNITS PROCURED OR AMOUNT OF USE BY THE VARIOUS PARTICIPATING NATIONS. IN NAMSA, FOR INSTANCE, EACH OF THE COOPERATIVE MAINTENANCE OR PROCUREMENT PROJECTS IS PAID FOR UNDER A SEPARATE COST-SHARING ARRANGEMENT WHICH REFLECTS PARTICIPATION.

4. ALTHOUGH COST-SHARING FORMULAS FOR NATO-WIDE PROGRAMS ARE REPUTED TO BE CALCULATED ON ABILITY TO PAY AND ECONOMIC AND FINANCIAL BENEFIT, THEY HAVE GENERALLY BEEN BASED ON MORE SUBJECTIVE CONSIDERATIONS. SOMETIMES WE HAVE SEEN NATIONAL POSITIONS BASED ON AMOUNT OF CONTRIBUTION IRRESPECTIVE OF RELATIVE SHARING, WHILE ON OTHER OCCASIONS, NATIONS HAVE INSISTED THAT THEIR SHARES SHOULD HAVE A FIXED RELATION TO SHARES OF CERTAIN OTHER NATIONS. RECENTLY THE US POSITION IN THE INFRASTRUCTURE FIELD (ENCOURAGED BY CONGRESSIONAL ACTIONS) HAS BEEN THAT THE US SHARES OF COMMONLY-FUNDED PROGRAMS SHOULD BE LOWER THAN WOULD BE INDICATED BY THE CLASSIC CONSIDERATIONS, TO PARTIALLY OFFSET THE GREATER OVERALL US CONTRIBUTION TO ALLIANCE DEFENSES. THE NATO MILITARY AND CIVIL BUDGET SHARING FORMULAS HAVE RESISTED CHANGE EXCEPT TO REFLECT MODIFICATION OF MEMBERSHIP. THE PRINCIPAL DIFFERENCE BETWEEN INFRASTRUCTURE AND NATO BUDGET SHARES IS THE REVERSAL OF THE RELATIVE UK AND FRG SHARES WITH THE UK PAYING MORE (22 PCT VICE 12 PCT) AND THE FRG LESS UNCLASSIFIED

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(19.4 PCT VICE 27 PCT) IN THE BUDGETS TO REFLECT THEIR RELATIVE INFLUENCE IN NATO HEADQUARTERS (AT THE TIME OF ACCESSION TO NATO BY THE FRG).

5. WE ASSUME THAT AN ALL-PURPOSE FORMULA WOULD BE SIMILAR TO THOSE COVERING OTHER NATO-WIDE PROGRAMS WITH PROVISION FOR DROPPING OUT NATIONS NOT PARTICIPATING AND ASSUMPTION OF THEIR SHARES PRO RATA BY THE REMAINING NATIONS. PRESUMABLY SUCH A FORMULA SHOULD NOT BE BASED ON THE INFRASTRUCTURE OR MBC FORMULAS, THE BASES FOR WHICH ARE LONG OUT OF DATE. RATHER, WE WOULD SEE A NEW CALCULATION STARTING FROM BASIC PRINCIPLES SUCH AS GROSS NATIONAL PRODUCT, PER CAPITA MEANS, ECONOMIC BENEFIT THROUGH INFLUX OF NATO FUNDS, ETC. THE US WOULD PROBABLY ALSO WANT TO CONSIDER LEVELS OF DEFENSE SPENDING FOR THE ALLIANCE AS A FACTOR TO REDUCE THE SHARE OF THE US (AND PERHAPS TURKEY AND THE UK).

6. BEFORE WE PLANT THE SEED FOR DEVELOPMENT OF SUCH A

FORMULA, IT WOULD APPEAR USEFUL TO MAKE OUR OWN CALCULATION OF THE POTENTIAL OUTCOME. A ROUGH CALCULATION (USING NATO FIGURES AS OF DECEMBER 1976) SHOWS THE GROSS US PRODUCT ABOUT EQUAL TO THAT OF THE REST OF NATO, WHILE US DEFENSE EXPENDITURES ARE ROUGHLY TWICE THOSE OF THE REST OF NATO. THUS, WITH EQUIVALENT WEALTH, WE ARE SUPPORTING TWICE THE DEFENSE BURDEN AND, SIMPLISTICALLY, WE COULD PERHAPS CONCLUDE THAT OUR BASIC SHARE OF COMMON BUDGETS SHOULD BE DERIVED BY DIVIDING OUR PERCENTAGE OF NATO GNP BY TWO TO PRODUCE 25 PCT. IN THE

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INFRASTRUCTURE FIELD, SINCE LITTLE IS BUILT IN THE US AND ONLY ABOUT 15 PCT OF THE FUNDS FLOW BACK TO THE US THROUGH CONTRACTING, THIS FIGURE COULD BE FURTHER REDUCED TO THE LOW 20'S, OR APPROXIMATELY OUR PRESENT COST SHARE. A SIMILAR CALCULATION FOR THE FRG RESULTS IN A BASIC SHARE IN THE RANGE OF 13-15 PCT TO BE INCREASED SOMEWHAT TO REFLECT AN INFLUX OF 30 PCT OF THE FUNDS THROUGH CONSTRUCTION OF CONTRACTING, ALTHOUGH THE CORRECTED FIGURE WOULD BE LOWER THAN THEIR PRESENT 26 PCT. THE UK CALCULATION WOULD GIVE A SHARE OF SOME 7-8 PCT AGAINST THEIR PRESENT SHARE OF 12 PCT.

7. NATO HAS AGREED TO START NEGOTIATION OF A NEW INFRASTRUCTURE CEILING FOR THE PERIOD 1980-1984 AND PRESUMABLY A NEW COST-SHARING FORMULA, IN THE AUTUMN OF 1977. WE EXPECT THAT THE UK WILL BE PUSHING FOR A REDUCTION FROM 12 PCT AND THAT THE US WILL BE HARD-PRESSED TO MAINTAIN ITS PRESENT "EFFECTIVE" 21.56 PCT. THIS EVENT MAY PRESENT US WITH AN OPPORTUNITY TO INTRO-

DUCE (THROUGH THE NATO INTERNATIONAL STAFF) THE IDEA OF A REVIEW OF COST-SHARING PRINCIPLES. WE SHOULD BE SURE, HOWEVER, THAT WE (AND CONGRESS) CAN LIVE WITH THE RESULTS WHICH, AFTER WEIGHING OF NATIONAL SUBJECTIVE CONSIDERATIONS, MAY LOOK VERY DIFFERENT FROM THOSE DEVELOPED

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ABOVE.

8. IF WE ARE TO KEEP THE INFRASTRUCTURE NEGOTIATIONS SEPARATE FROM THOSE FOR AN ALL-PURPOSE FORMULA, IT MIGHT BE BEST TO ALLOW THE REQUIREMENT TO SURFACE IN THE EWG DURING DISCUSSIONS ON THE 1977 INITIATIVES AND AGREE TO REFER IT TO A GROUP OF FINANCIAL (NOT ECONOMIC) ADVISORS FOR NEGOTIATION. THIS WOULD KEEP IT UNDER THE CONTROL OF PERSONNEL WHO HAVE PARTICIPATED IN PREVIOUS BUDGETARY ARRANGEMENTS.

9. FINALLY, WE NOTE IN PARA 1, REFTTEL, THE SUGGESTION THAT AN ALL-PURPOSE FORMULA MIGHT APPLY TO CERTAIN COLLECTIVE PROGRAMS. OUR COMMENTS FOLLOW:

A. WRM - PRESUMABLY THE COUNTRIES WHICH CAN AFFORD IT WILL AGREE TO INCREASE THEIR STOCKS AS FAST AS FUND AVAILABILITY WILL PERMIT. THE SHORTFALL WILL APPEAR ONLY ON THE SOUTHERN FLANK AND WILL PROBABLY REQUIRE A VERY SPECIAL COST-SHARING FORMULA SUCH AS THE INFRASTRUCTURE AGREEMENT TO FUND SOME 80 PCT OF CERTAIN EXPENSES WHICH NORMALLY WOULD HAVE BEEN CHARGED TO GREECE AND TURKEY.

B. TRAINING FUND - THIS WOULD NORMALLY BE FUNDED ON THE BASIS OF PARTICIPATION - WITH PERHAPS SOME AID FOR THE SOUTHERN FLANK.

C. EXERCISE FUND - WE WOULD SEE THIS AS A MILITARY BUDGET ITEM FOR THOSE COSTS DEEMED TO BE ELIGIBLE. NATIONAL ATTEMPTS TO TAP THE FUNDS (E.G., HIGH US CHARGES FOR AIRLIFT OF ALLIED FORCES) HAVE, HOWEVER, INSPIRED THE MBC TO KEEP VERY TIGHT CONTROL ON ELIGIBILITY.

D. ELECTRONIC WARFARE FUND - IF THIS SHOULD BE A

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CAPITAL COST FUND, WE WOULD SEE IT AS SIMILAR TO SUB-

PARAS A AND B ABOVE. IF IT IS AN EXERCISE FUND, WE
WOULD INCLUDE IT IN SUBPARA C ABOVE, ALTHOUGH THE UK
POSITION (OF GOING IT ALONE) MIGHT REQUIRE ALTERATION
OF THE MBC FORMULA.

10. IN SUMMARY, WE AGREE THAT, IF THE LONG-RANGE
DEFENSE INITIATIVES REVEAL AREAS WHERE COMMON FUNDING
WOULD BE DESIRABLE, WE SHOULD SEEK TO AVOID THE SUBJECTIVE
DISCUSSIONS WHICH PLAGUED THE AWACS NEGOTIATIONS. WE
SHOULD BE CAREFUL, HOWEVER, NOT TO EMBARK ON AN ADVEN-
TURE WHICH WOULD PUT US AFOUL OF CONGRESS. STREATOR

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